

CITY OF NEWARK
Delaware

August 24, 2015

TO: The Honorable Mayor and City Council
VIA: Carol S. Houck, City Manager 
FROM : Louis C. Vitola, Finance Director 
RE: August 22, 2015 article about Delaware's electric rates published by The News Journal

Enclosed please find an excerpt from the above-referenced news article with inaccuracies highlighted in yellow and additional commentary in red. While it is no secret that the City of Newark generates a positive margin in the Electric Fund for the purpose of transferring a valuable subsidy to the General Fund, we do so at a residential rate that is competitive with Delmarva Power and in a way that does not sacrifice reliability. Further, in order to get a true picture of the value of all services provided in Newark, a comprehensive rate and service study is required. We undertake the exercise once per year in connection with the annual budget process, and work is underway on this year's comprehensive analysis. Last year's analysis is attached for your reference.

We will be reaching out to the article's author to note the mistakes made in the calculation of Delmarva's rate.

Please let us know if you have any questions or concerns.

Attachments

How electric bills subsidize Delaware budgets

 [Jeff Montgomery](#), The News Journal 12:28 p.m. EDT August 22, 2015

How Delaware's community electrical services are helping municipal budgets.



(Photo: JASON MINTO/THE NEWS JOURNAL)

A typical residential customer in Newark pays a monthly electricity bill of about \$153. But hop across the border to an area served by Delmarva Power, and the same usage generates a bill of \$135.

We strongly believe that the figure of \$135 was calculated incorrectly. Officials at DEMEC estimate the Delmarva residential fee for 1,000kWh usage at \$154.22, higher than Newark's rate of \$153.18.

Why the discrepancy?

Because Newark is one of nine municipal-owned electric services in Delaware, an arrangement that gives local officials complete control to set rates without outside oversight.

Clayton, Dover, Lewes, Middletown, Milford, Newark, New Castle, Seaford and Smyrna have a total of about 66,000 accounts, or 13 percent of electric customers in the state. The agencies are part of the [Delaware](#)

[Municipal Electric Cooperative](#) (/story/money/business/2014/05/25/delaware-electric-cooperative-rates-rise/95748111), which produces power for some of its members and buys the rest from other sources, including the PJM Interconnection, an electrical grid covering 13 states.

DEMEC is the Delaware Municipal Electric Corporation, Inc., a State of Delaware Joint Agency, not to be confused with the Co-op, which is the subject of the incorrectly linked story.

The power then is resold to customers at a higher rate, generating a surplus. For officials, the system means a steady source of revenue that goes directly into municipal coffers, money that can be used to help general funds and avoid property tax increases, budget cuts or reduced services.

In the current budget cycle, electric bills subsidized about 40 percent of non-utility, general fund needs in Newark and 28 percent in Milford. In Middletown, the amount was 37 percent, with property taxes paying for 8 percent.

This year, Dover tapped \$10 million from electricity receipts for budget needs – nearly \$1 for every \$4 spent on all government services.



[DELAWAREONLINE](#)

[Panel seeks cheaper electricity for Delaware ratepayers](#)

The rates are noticeable to Robert Pancake, CEO and operating officer of High 5 Hospitality, which owns six Buffalo Wild Wing restaurants in Delaware and two in Maryland, along with the Stone Balloon Ale House in Newark.

"It is a substantial difference when I look at just that line item on our profit and loss statement," particularly for sites in Newark and Middletown versus others, he said.

Commercial rates in Middletown ranked in the top 5 percent charged by all municipal, investor-owned and rural cooperative utilities nationwide in 2013, with Clayton close behind. Seaford, Smyrna and Newark were in the top 10 percent, according to the most-recent full-year data from the Department of Energy.

Residential rates in Clayton, Newark and Smyrna also were in the top 10 percent, and Seaford, Middletown, New Castle and Dover were in the top 20 percent.

Costs for municipal electric bill, from published rates.

Town	Monthly residential bill - 1,000 kwh/summer	Electric agency transfers to Gen. Fund (millions)	Prop. Tax Revenues (millions, current year)
Newark	\$153.18	\$10,000,000	\$5,700,000
Seaford	\$152.4	\$2,730,000	\$2,370,000
Clayton	\$146.39	.	.
Middletown	\$144	\$8,350,000	\$1,800,000
Smyrna	\$143	\$2,300,000	\$3,910,000
Milford	\$141.48	\$2,500,000	\$3,700,000
Lewes	\$137.99	\$570,000	\$2,380,000
Delmarva	\$135	.	.
Del. Coop	\$129.71	.	.
Dover	\$127.98	\$10,000,000	\$41,800,000
New Castle	\$125.7	\$530,000	\$4,860,000

Accurate Rates:

- 153.18
- 154.37
- 148.40
- 153.24
- 154.68
- 146.49
- 127.62
- 154.22
- 129.71
- 127.98
- 141.81

Figures are NOT reported in millions

Accurate -we provided TNJ with our current rates

Delmarva's rate is significantly understated.

Some municipalities separate utility expenses and revenues from other operations and then transfer surplus electric funds to other budget uses, some mingle all sources. Not all municipalities would confirm rates.

[Get the data](#)

How electric bills subsidize Delaware budgets

"It is a factor, absolutely," Pancake said. "Are we concerned about it and would we like to see prices stabilize and be more realistic compared to other areas? Yes."

Delaware Public Advocate David Bonar, who represents consumers in front of the Public Service Commission, said the rates are becoming a burden on consumers and the state's economy.

"We still have among the highest retail electricity rates for commercial and industrial customers in the region," said Bonar, who saw the other side of public power as a former Dover City Council president. "As long as they remain high, we're going to have a difficult time attracting new businesses of any consequence to the state."

Gov. Jack Markell in 2012 asked public utilities to rein in charges. Unlike with property taxes, renters and land owners alike pay power bills, and rate amounts and increases often can be overlooked.



Gov. Jack Markell (Photo: ROBERT CRAIG/THE NEWS JOURNAL)

"It's been so long since I compared electric bills to any other outside resource that I don't really know what our electric rate is," said Sharon Sedita, 57, one of more than 11,500 residential and business customers in the Newark grid. "I'd say we probably have higher bills."

Clayton is most expensive

Advocates say public electric providers ensure local control and offer lower rates than private companies. Nationally, about 2,000 public power utilities are in operation, with Los Angeles and San Antonio, Texas, being the largest. Maryland has two public power utilities and 22,900 customers. Thirty-six operate in Pennsylvania, serving 26,600, and 37,750 are enrolled in New Jersey's nine municipal providers.

In Delaware, the largest electric provider is Delmarva Power, an investor-owned utility with 276,000 accounts. Parts of the state also are served by the Delaware Electric Cooperative and a number of private, retail utility companies, which in some areas compete for customers searching for the best rate.

Those in the communities with municipal power can't shop around, they must get electricity from the government utility.

Clayton, Newark, Smyrna, Seaford, Middletown and Milford all charged more per residential kilowatt hour than Delmarva Power, according to an Energy Information Administration database for 2013, the most-recent full year available.

2014 Electric Cooperative vs. Municipal customers

The total number of customers for Delaware Electric Cooperative vs. nine municipal systems for 2014, broken down by residential, commercial and Industrial customers.

Utility Name	Ownership	Residential	Commercial	Industrial	Total
Delaware Electric Coop	Cooperative	78,631	9,395	0	88,026
City of Dover	Municipal	20,024	3,348	41	23,413
City of Newark	Municipal	10,374	1,474	53	11,901
Town of Middletown	Municipal	6,860	539	280	7,679
City of Milford	Municipal	5,721	1,292	16	7,029
Town of Smyrna	Municipal	4,631	506	152	5,289
City of Seaford	Municipal	2,851	724	85	3,660
New Castle Municipal	Municipal	2,354	328	.	2,682
Town of Clayton	Municipal	1,256	65	.	1,321
City of Lewes	DE	3,601	N	.	.

[Get the data](#)

Only the Dover system, the largest of the municipal utilities, along with Lewes and New Castle were lower than Delmarva's average revenue per kilowatt

How electric bills subsidize Delaware budgets

for residential service in the same period.

Lewes, which provides electric, water and sewer service through an independent and separate Board of Public Works, defines the transfers to the city as payments in lieu of taxes. The board's charter does not allow the city to collect more than 5 percent of revenues. Board officials in October reported reducing the payments from 2012 levels in a report sent to summarize municipal compliance with the Markell agreement.

Overall, Delaware's municipal rates occupy spots near the top or in the upper tiers in national comparisons with municipal systems as well as rankings that included investor-owned utilities and cooperatives. According to PJM, the most expensive electricity in the state in 2014, through May, was Clayton, which collected an average 14.893 cents per kilowatt overall, and a state-leading 14.993 cents per kilowatt for residential service.



Dave Bennett, of the New Castle Municipal Services Commission, works on a power line on Aug. 13. (Photo: SUCHAT PEDERSON/THE NEWS JOURNAL)

Seaford led the state for commercial revenues per kilowatt, at 15.156 cents.

Delaware does not limit municipal utility rate increases or how funds are used, unlike other states.

"In some [states], the percentage [reallocated] is capped and regulated, as it would be if it were investor owned. In others, municipalities are pretty much free to do what they choose," said Manuel P. Teodoro, an associate professor of economics at Texas A&M University who has studied and written on the issue.

"Elected officials always find it easier – while they don't enjoy raising utility rates – it's easier to raise a utility rate than a tax, politically," Teodoro said. "It can sometimes take a lot of work, and a very savvy consumer, to trace things and see how much of their energy bill is going into a city's general fund."

Clayton resident Jason Gilliam, 41, was unaware he was paying the highest residential electrical rate average in the state – 15 percent more than the Delmarva average

"Without having a point of reference, the bills seem normal to us," said Gilliam, who lives in south Clayton's Providence Crossing neighborhood. "But then again, we don't know what other people are paying. It's not something we research."

"If our taxes are lower compared to other places and it becomes a wash, that would make me feel a little better that we're not being gouged. But I'd like to know how that money is being used," Gilliam said.

Edward Ratledge, a University of Delaware professor who directs the Center for Applied Demography and Survey Research, said municipal utility operators have come to rely on the revenue stream, which is seen as more tolerable than hiking property taxes.

"It's easier to collect money through electric bills rather than call it a tax, but it's really a tax," Ratledge said.

The system puts those who can't afford energy conservation measures at a disadvantage, he said.

"It hurts poor people worse than anybody," Ratledge said. "It's hardest on the people who can do the least about it. You don't see a lot of poor people putting solar panels on their roof and selling it back to the grid at exorbitant rates."

Newark Finance Director Louis C. Vitola said the city's public utility structure is a public good. He said the fees mean officials avoid increasing property taxes.

"If we didn't have that \$10 million to sweep into the general fund, we're talking about a tax increase of \$10 million," said Vitola, who previously held the same position in Middletown, "Our [current] property tax is only \$5.7 million."

If an investor-owned utility like Delmarva Power provided power for Newark's residents, Vitola said, surplus revenues or profits would go out of town, to investors.

According to Newark's current-year budget document, "our dependence on utility transfers to the General Fund is one that cannot be easily modified without severe service reductions or a great deal of revenue diversity."

Smyrna City Manager David Hugg painted a similar picture. The city tapped \$2.3 million from its electric fund for general fund needs this year.

How electric bills subsidize Delaware budgets

"We try to hold the residential rates, not necessarily the lowest, but not the highest," said Hugg, who also is vice chairman of the Delaware Municipal Electric Corp. "It's no secret that we use our utilities, sewer and electric, as a revenue generator. In most towns, property taxes and transfer taxes just don't cover things like police."

Economic development issue

John Flaherty, president of the Delaware Coalition for Open Government, said municipalities have clear financial and political incentives to lean on electric rates when budgets are tight.

"The more money they can raise from constituencies that might not be aware of what they're paying, the more likely they're going to do it," Flaherty said.

Markell in 2012 told municipal leaders he would oppose legislation that would let customers jump to other electric suppliers, provided utilities agree to control rates and use of surplus revenues. All nine municipal utilities complied with a request to reduce rates.

"The governor had a very candid conversation at the time with several of those municipal leaders," said Mike Barlow, Markell's chief of staff. "They have the exclusive ability to make sales of electricity in their jurisdictions. As a result, there wasn't competition around that."

Barlow said some municipalities still need to provide the Governor's Office with more information about other parts of the deal, including provisions for and use of discount economic development rates, as well as more information about efforts to cap use of surplus electric revenues at 2012 levels.

"For the most part, you have to say, across the board, DEMEC municipalities have done a good job and met their commitments, including, most significantly, to give a residential, commercial and industrial consumer cut in energy costs of 10 percent," he said.

Communities will be asked to provide more information about compliance with the deal, Barlow said, particularly on compliance with the five-year cap on surplus fund transfers to other budget needs.



Traffic drives on Main Street in downtown Newark on Tuesday. Newark has one of nine municipal-owned electric services in Delaware. (Photo: WILLIAM BRETZGER/THE NEWS JOURNAL)

"We're sensitive to the fact that one of the issues in transferring money is, it's got to come from somewhere," Barlow said.

Seaford Town Manager Delores Slatcher said there are additional costs, presenting new issues.

"We've met the requirements of the memorandum of understanding" with Markell, Slatcher said. "We've lowered our electric rates, which is creating additional costs for us, so we're being challenged with some higher costs as well as reductions in our revenue base."

Bonar and other local officials said that Delaware's rates are pushed up in part by costly regional transmission line bottlenecks that make it harder for public systems to buy and resell lower-cost power.

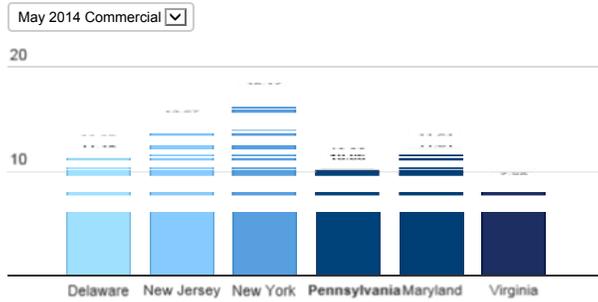
"We did to some extent try to adjust the rates as much as we could, and I think the city continues to try to work with businesses to make sure the rates are reasonable," Bonar said. "We worked very hard to try to get some movement. The fact remains that industrial and commercial rates are far too high in Delaware."

The same congestion issue now threatens to push Delmarva Power's rates higher under a disputed PJM grid plan to make its customers pay most costs for a \$275 million new line that would improve the regional stability of electricity that flows from the Salem/Hope Creek nuclear plant in New Jersey. [Markell and others have called the cost-allocation unfair \(//story/news/local/2015/07/14/markell-calls-power-line-cost-plan-patently-unfair/30140417/\)](http://www.delawareonline.com/story/news/local/2015/07/14/markell-calls-power-line-cost-plan-patently-unfair/30140417/).

How electric bills subsidize Delaware budgets

Electric costs for Delaware and neighboring states

Values are measured in cents per Kilowatthour and are year-to-date through May 2015 and May 2014.



Average retail price of electricity to ultimate customers

[Get the data](#)

Barlow said Markell also recognizes the continuing issue of electricity bills and the risk to discouraging business from locating in the state.

"When they do so expressly to balance the budget, rather than address tax and fee issues [instead], it becomes one of those things that becomes a cost concern for business," he said.

Hugg, the Smyrna official, said there's no question utility bills are a vital source of income. Any change would hurt the community, he said.

"My police budget is on an order of magnitude \$4 million a year. We take in \$3 million a year on property and transfer taxes," Hugg said. "Just running a police department is a deficit situation if we don't have utility revenues."

Contact Jeff Montgomery at (302) 463-3344 or jmontgomery@delawareonline.com.



[DELAWAREONLINE](#)

[UD expels Data Centers project as 'bad fit'](#)

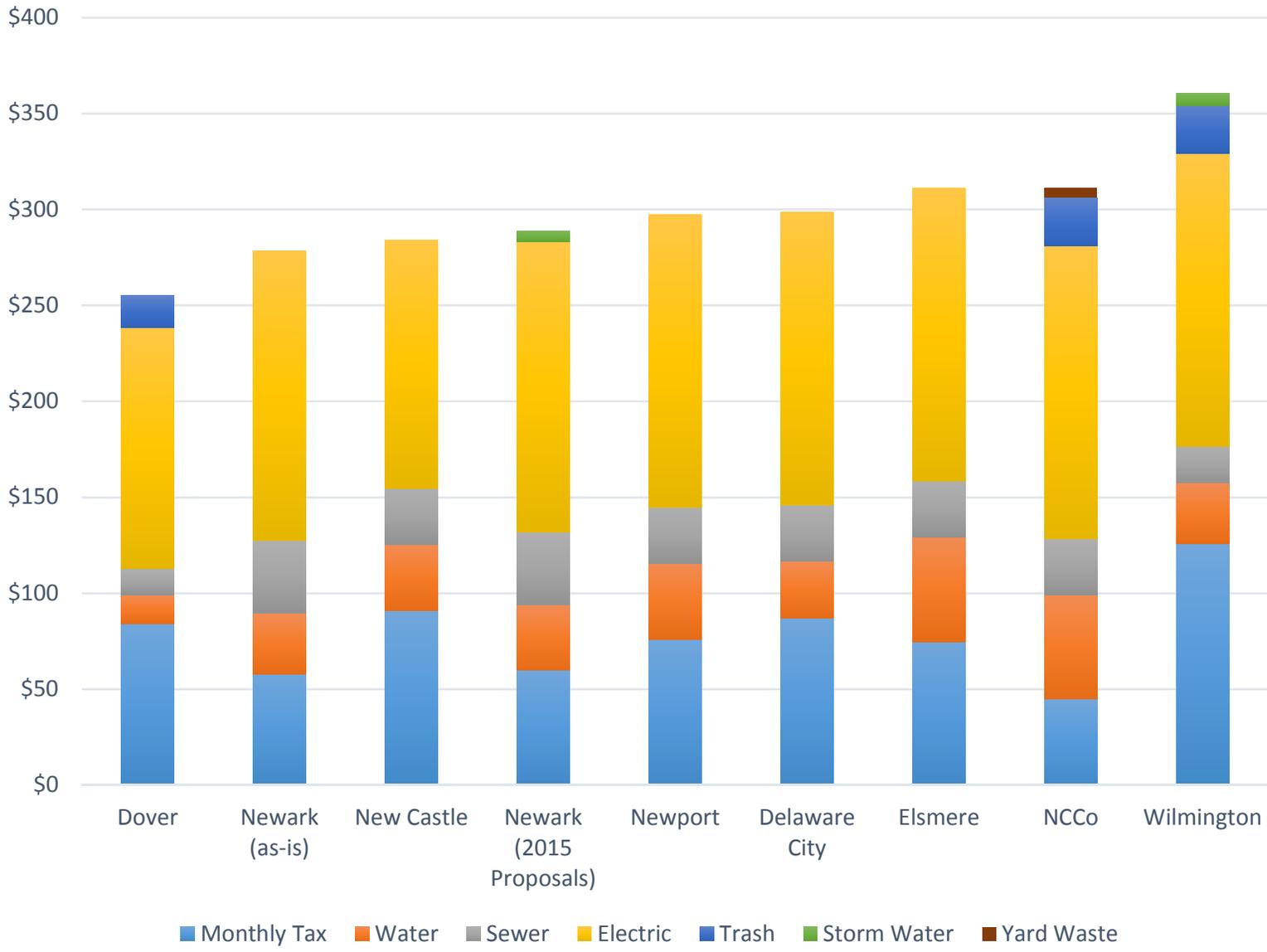
Communities with municipal electrical systems

- Clayton
- Dover
- Lewes
- Middletown
- Milford
- Newark
- New Castle
- Seaford
- Symrna **Misspelled**

Read or Share this story: <http://delonline.us/1Jb4dql>

Comprehensive Tax & Utility Comparison

Monthly Estimates, 2014



Comprehensive Tax and Utility Comparison
Northern New Castle County and Dover, 2014 Estimates

City	Total Monthly	Electric	Monthly Tax	Water, \$/kGal	Water	Sewer	Trash	Yard Waste	Storm Water	Notes
Dover	255.33	125.58	84.05	3.00	15.24	13.46	17.00	-	-	4, 5, 7, 8, 12
Newark (as-is)	280.82	151.23	57.86	6.67	33.88	37.84	-	-	-	2, 3, 6, 7, 8, 12, 15
New Castle	284.03	129.32	90.81	6.84	34.74	29.16	-	-	-	2, 3, 6, 7, 12, 15, 16
Newark (2015 Proposals)	291.18	151.23	60.04	7.15	36.32	37.84	-	-	5.75	2, 3, 6, 7, 8, 9, 12, 15, 18
Newport	297.30	152.66	75.96	7.78	39.52	29.16	-	-	-	2, 3, 6, 7, 12, 14, 16
Delaware City	298.59	152.66	87.06	5.85	29.72	29.16	-	-	-	2, 3, 6, 7, 12, 15, 16
Elsmere	311.02	152.66	74.64	10.74	54.55	29.16	-	-	-	2, 3, 6, 7, 12, 13, 15, 16
NCCo	311.18	152.66	44.73	10.74	54.55	29.16	25.08	5.00	-	1, 6, 7, 10, 11, 12, 17
Wilmington	360.81	152.66	125.66	6.26	31.80	19.14	24.80	-	6.74	2, 3, 6, 7, 8, 12, 18

Notes:

¹NCCo represents unincorporated areas of New Castle County

²All cities and towns in New Castle County adopt the County's 1983 assessment

³Residents in incorporated areas of NCCo must pay a reduced NCCo tax based on the service level provided at the municipal level

⁴Dover reassesses property tax values on a regular basis. It's stated or millage rate of .3378 was adjusted to 1983 values based on a rough calculation of 1983 market values versus recent sales data in Newark

⁵Dover residents also pay Kent County's tax of \$0.30 per \$100 of 60% of the assessed values, which were last assessed in 1987. No adjustment was made to roll the rate back to 1983 levels because the assessment is already reduced by 40%.

⁶All tax amounts assume a \$75,000 assessment (1983 values), spread to a monthly average rate

⁷Water rate analysis conducted by Water Resources Agency, September, 2014 draft, based on residential users consuming 167 gallons per day

⁸For cities with water utilities that service customers outside corporate limits, the "inside city" rates are used

⁹Newark's recommended water and tax rates, not current rates, are used.

¹⁰Water and Electric users in unincorporated NCCo are assumed to be serviced by Artesian Water Company and Delmarva Power, respectively

¹¹Residents in unincorporated NCCo are assumed to utilize a trash company with weekly service having a rate equal to the average of several local providers

¹²Electric rates reflect a seasonal average of monthly rates for residential customers consuming 1,000 kwh per month

¹³Elsmere residents are Artesian Water Company customers

¹⁴Newport residents are United Water Company customers

¹⁵Cities with no trash charge build the cost of service into the property tax rates or another funding mechanism

¹⁶Newport, New Castle, Elsmere, and Delaware City residents are New Castle County sewer customers

¹⁷All cities provide snow removal and yard waste collection at no additional cost. Unincorporated NCCo residents must pay for yard waste. \$5/mo assumes 20 bags at \$3/bag for cheapest, most comparable private service. Some service is more expensive, three of twelve drop-off sites are free.

¹⁸Newark residential stormwater fee is expected to range from \$4 to \$7.50 per month; estimated average of \$5.75 reported here; Wilmington stormwater rates increased 11%.